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SUBJECT: KUWAIT STOCK EXCHANGE STUMBLES OVER AGILITY

¶1. (U) A bearish Kuwait Stock Exchange (KSE) dropped almost three percent November 17 on the news that the U.S. Department of Justice had indicted Agility, a publicly-traded Kuwaiti company with major logistics and support contracts with the U.S. military. The KSE briefly halted trading in Agility, pending clarification from the company on the indictment, and then allowed trading to resume. Agility ended the day down by 8.3%, but that loss wasn't bad enough to even make the list of the top five daily losers) although the National Real Estate Company (the largest Agility shareholder) did. Tuesday's negative trading session came on top of large KSE losses the week before and capped a two month slide. The market index is about 7% down from a week earlier and around 13% from the beginning of the year. In early morning trading on November 18, the overall market continued its downward trend. The financial press and market commentators note that the surprise Agility indictment rattled an already shaky market; some see the USG move as the latest example of a lack of market transparency, which has already sapped investor confidence in the stock market.

¶2. (SBU) Comment: Kuwait's stock exchange has been buffeted over the past year. Political strife between the parliament and the GoK, poor financial results by investment companies (two of the largest, Global Investment House and the Investment Dar both defaulted on loans and entered into restructuring negotiations with creditors), and general economic gloom have all weighed on the market. The decision earlier this week by Kuwait's parliament to postpone debate on proposals to forgive Kuwaiti consumer debt until late December added still more uncertainty, as has the "yes we are, no we aren't" discussions about the possible sale of 46% of the telecommunications company Zain to foreign investors. Although Kuwait has the second largest stock market in the Arab world, it has no independent regulator and its level of transparency is "developing." There is a widespread perception among market participants that insider trading, and market manipulation are rife and that "the big eat the small." (Note: 50% of trade volume and about a third of trade value is made by individual investors. End note.) In this environment, the Agility story is only the latest bit of bad news to spook investors. End Comment.

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